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# CHANGING LANDSCAPE OF PRIVATE RENTAL MARKET IN KOREA

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**KRIHS** Korea Research Institute for  
Human Settlements



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## Changing Landscape of Private Rental Market in Korea

Korea has developed a unique rental system, the so-called chonse. Under the chonse contract, tenants deposit a lump-sum of money equivalent to over half of the housing price to house owners for the rental contract period. During that period, tenants do not need to pay rent on a monthly basis. Once the contract is over, the landlords are expected to return the same amount of money back to the renters; however, the landlords are able to use the deposit money during the contract period for their own purposes.

During the time of escalating housing prices and high interest rates, both the renters and landlords have favored the chonse contract rather than monthly rent with deposit (MRD). The tenants prefer chonse because they don't need to pay rent every month, and they tend to consider the chonse deposit money as a mandatory saving or the seed money to buy a house in the near future. What's more, landlords also favor chonse because collecting rent every month is cumbersome and has a default risk. In addition, they are able to leverage the chonse deposit to buy another house as an investment. This works well under the conditions that house prices keep increasing with high interest rates and a shortage of rental housing units. However, those factors fueling the chonse system have faded out with the mass provision of housing units, pessimistic expectations over housing prices and economic recovery, and low interest rates.

# CHANGING LANDSCAPE OF PRIVATE RENTAL MARKET IN KOREA

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Most recent research projects are as follows:

- Improper Payment and Frauds in Housing Choice Voucher Program in the USA (2015)
- A Study on the Customized Policy Measures Addressing Low-income Households' Rent Burden Responding to Rental Market Change (2014)
- Housing Voucher Program Design (2014)
- Factors Affecting Housing Tenure Choice during 1990 and 2010 (2013)
- A Primer on the Korean Planning and Policy: Housing Policy (2013)
- Housing Choice Vouchers as a Means of Poverty Deconcentration and Minority Desegregation (2013)



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# Summary

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**The prevalent type of the rental contract has shifted from *chonsei* to MRD. There are growing concerns over the housing cost burden for low-income renters**

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Korea has developed a unique rental system, the so-called *chonsei*. Under the *chonsei* contract, tenants deposit a lump-sum of money equivalent to over half of the housing price to house owners for the rental contract period. During that period, tenants do not need to pay rent on a monthly basis. Once the contract is over, the landlords are expected to return the same amount of money back to the renters; however, the landlords are able to use the deposit money during the contract period for their own purposes. During the time of escalating housing prices and high interest rates, both the

renters and landlords have favored the *chonsei* contract rather than monthly rent with deposit (MRD). The tenants prefer *chonsei* because they don't need to pay rent every month, and they tend to consider the *chonsei* deposit money as a mandatory saving or the seed money to buy a house in the near future. What's more, landlords also favor *chonsei* because collecting rent every month rent is cumbersome and has a default risk. In addition, they are able to leverage the *chonsei* deposit to buy another house as an investment. This works well under

the conditions that house prices keep increasing with high interest rates and a shortage of rental housing units. However, those factors fueling the *chonsei* system have faded out with the mass provision of housing units, pessimistic expectations over housing prices and economic recovery, and low interest rates.

Housing rental market conditions have changed dramatically. The prevalent type of the rental contract has shifted from *chonsei* to MRD. There are growing concerns over the housing cost burden for low-income renters, especially those living on a monthly rent contract. However, low-income renters in the private rental housing market have hardly been the first priority of policy consideration. The Korean government has implemented numerous housing policies; however, most of them have focused mainly on boosting owner-occupation and providing lower interest loans for households living with *chonsei*. It has been quite rare to find policy tools to relieve the rent burden for those with an MRD contract. Furthermore, due to lack of data availability, there has been no detailed research on the characteristics of private rental markets. As a matter of fact, about 40% of total households in Korea are private renters. Considering the importance of the market share presently and in the near future, this study aims to explore the trend and characteristics of recent private rental market changes. The data analyzed in this study covers the whole population transaction data of private rental contracts during the past four years, which is the first attempt in housing studies in Korea.

The findings show that there are huge gaps between tenure types (*chonsei* vs. MRD), deposit money (small deposit vs. large deposit), housing types (apartment vs. others), and age groups (from 20s to over 60s). Based on a spatial analysis of rental contract data during the last four years, the author finds that low-income renters are facing difficulties in finding affordable *chonsei* housing units. At the same time, there are growing concerns over the severe housing cost burden for MRD contract households. *Chonsei* transactions tend to decrease, with specifically affordable *chonsei* units becoming hard to find, while expensive *chonsei* units are more prevalent in Seoul. On the other hand, an MRD contract that requires a relatively small deposit has increased its share in the private rental market, which leads to an increase in the burden of low-income renters' housing costs. Spatial analysis shows that rental market changes are not a homogeneous phenomenon over space. It reflects the fact that policy tools should consider regional differences as a significant aspect of policy implementations.

Young adults have entered the rental housing market at a growing pace. However, there is a huge gap between those who are living with *chonsei* and MRD. Young households living with *chonsei* usually have a higher deposit and enjoy a better residential environment and housing quality. Considering their age, economic situation, and job security as a whole, their deposit money is likely to be transferred from their parents' generation. This reflects increasing concerns over not only the inter-generational gap presently but also the intra-generational gap in the near future. Based on the research findings, the author proposes several policy suggestions to relieve rent burden for low-income households and young adults as well as developing a local rental program to respond to spatial uniqueness.



# Introduction

## I. Background and purpose of study

### I.1 Background of study

As the recent private rental market in Korea has been rapidly changing from *chonsei*-centered to monthly rent with deposit (MRD), regional conditions are becoming increasingly different. The transformation of the private rental market conditions have added concerns over rising housing costs for most households with lease contract. There is a lack of research investigating the detailed picture of current situations and the changing aspects of the private rental markets, mainly due to the limited access to lease contract data. The government has made every effort to stabilize housing market conditions, but most of the government's policies have focused mainly on boosting homeownership rather than providing a rental subsidy to low-income households. Among renters, *chonsei* households have had the benefit of getting deposit loans at a discounted rate compared to MRD renters who usually have suffered from housing hardships. The study stems from the fact that government efforts are not sufficient to address recent rental market changes, and detailed analysis based on the lease contract data will provide a better understanding of the current situation and the scope and depth of the rental market transformation. This will lead to policy recommendations that will better handle the issues of the private rental markets.

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**The government has made every effort to stabilize housing market conditions, but most of the government's policies have focused mainly on boosting homeownership rather than providing a rental subsidy to low-income households.**

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### I.2 Purpose of study

The purpose of this study is to propose customized policy plans that can contribute to the housing stability of renters which correspond to the structural changes of the previous *chonsei* and MRD rental market based on detailed data analysis. Specific goals are as follows. First, this study aims to analyze the overall trend of rental market changes and the housing conditions of the rental market participants. Second, this study aims to analyze the spatial differences of rental market changes and to determine the areas of interest and the characteristics of policies that correspond to the changes and focus in leasing. Third, this study aims to contribute to the improvement of the rental market structure in terms of policies and to propose customized methods suitable to market conditions that will stabilize the rental market and support the establishment of

differentiated housing policies (according to region, house type, tenure type, house price range, and age group). Lastly, this study aims to provide policy implications that might be of help to housing policies and the provision of affordable housing in developing countries.

## 2. Methodology and research flow

### 2.1 Methodology

• **Scope of research**

This study is segmented into three ranges according to content. On the macro level, this study analyzes the period between 1980 and 2010 to analyze tenure changes in the rental market. On the Messo level, the study analyzes a period of six years from 2006 to 2012 to analyze the housing condition changes of rental market participants. On the micro level, the study analyzes from 2011 to 2014 to analyze microscopic changes in the rental market.

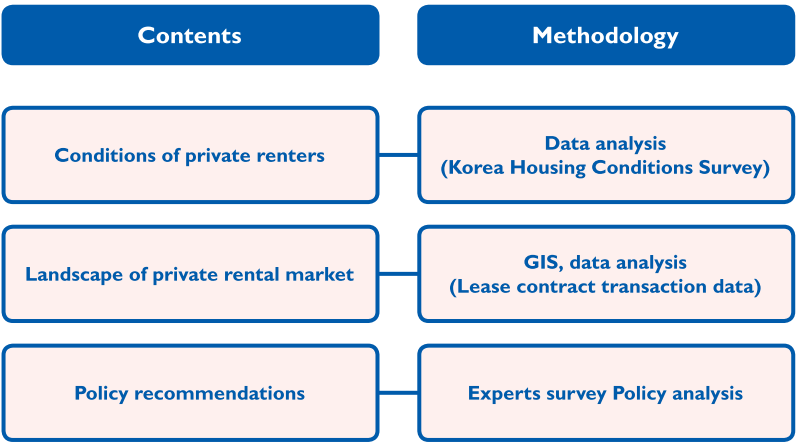
• **Research methodology**

This study adopts several methodologies, including literature review, policy analysis, expert interview, geo-coding, address matching, and kernel density analysis.

### 2.2 Research flow

Main research content and methodology are as follows.

Figure 1. Research flow



# Tenure Changes and Housing Conditions of Renters

## I. Housing market tenure changes

### I.1 Housing tenure changes since 1980

Since 1980, the chronological changes in the rental market structure have been a decrease in *chonsei* and an increase in MRD. The percentage of households that are owners recorded the lowest in 1990, at less than 50 percent. Afterwards, it increased steadily until 2010, when it slightly decreased. After recording 29.7 percent in 1995, the percentage of *chonsei* households have decreased until 2010. MRD households increased rapidly in the 2000s: it recorded 21.4 percent in 2010 including monthly rent without deposit, a similar percentage to *chonsei* households.

**Table I. Housing tenure changes since 1980**

(Unit: thousand households, (%))

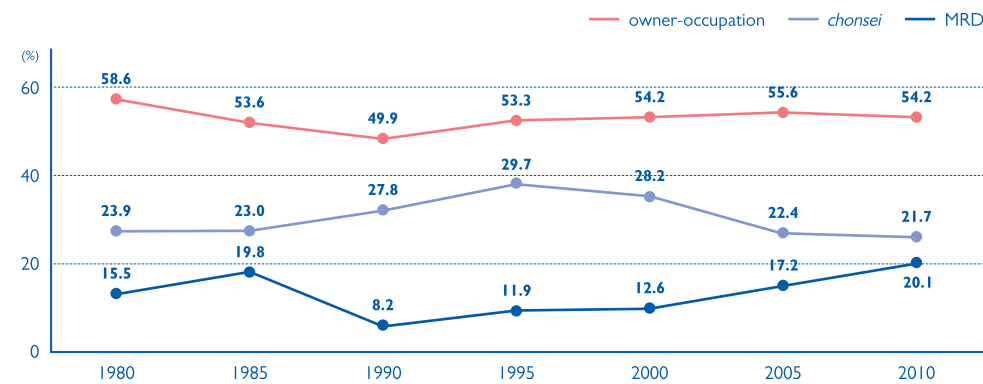
Category	1980	1985	1990	1995	2000	2005	2010
<b>Households</b>	7,969 (100.0)	9,571 (100.0)	11,355 (100.0)	12,958 (100.0)	14,312 (100.0)	15,887 (100.0)	17,339 (100.0)
<b>Owners</b>	4,672 (58.6)	5,127 (53.6)	5,667 (49.9)	6,910 (53.3)	7,753 (54.2)	8,828 (55.6)	9,390 (54.2)
<b>Chonsei</b>	1,904 (23.9)	2,202 (23.0)	3,157 (27.8)	3,845 (29.7)	4,040 (28.2)	3,557 (22.4)	3,766 (21.7)
<b>MRD</b>	1,231 (15.5)	1,893 (19.8)	2,173 (19.1)	1,536 (11.9)	1,803 (12.6)	2,728 (17.2)	3,490 (20.1)
<b>Monthly rent without deposit</b>	-	-	-	339 (2.6)	310 (2.2)	284 (1.8)	230 (1.3)
<b>Free of charge</b>	162 (2.0)	350 (3.7)	358 (3.1)	328 (2.5)	406 (2.8)	490 (3.1)	464 (2.7)

Note: 1980, 1985, 1990 MRDs include monthly rent without deposit.

Source: Statistics Korea (2011), 2010 Population and Housing Census Results (Households and Housing Category) Press Release, p.22

Figure 2. Changes in percentage by tenure type (1980-2010)

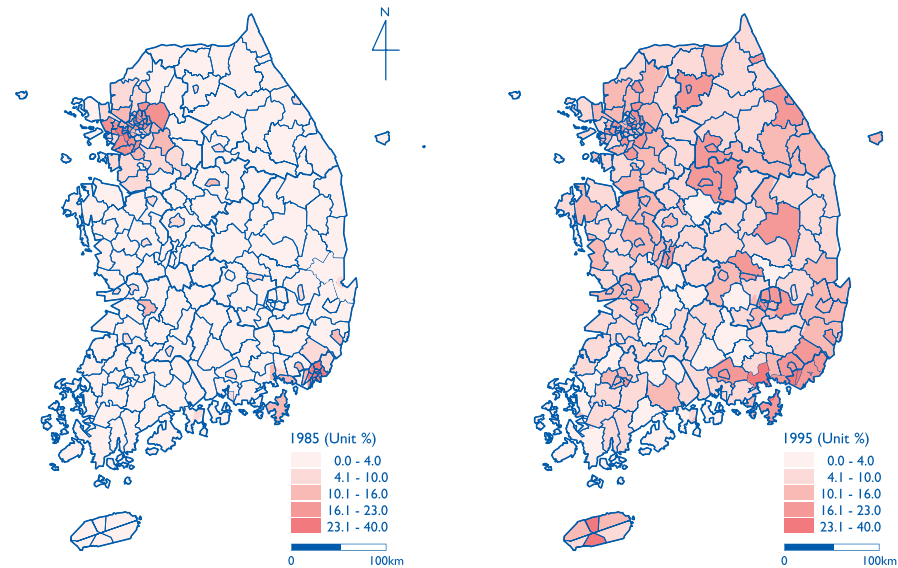
Source: Statistics Korea (2011), 2010 Population and Housing Census Results (Households and Housing Category) Press Release, p.23



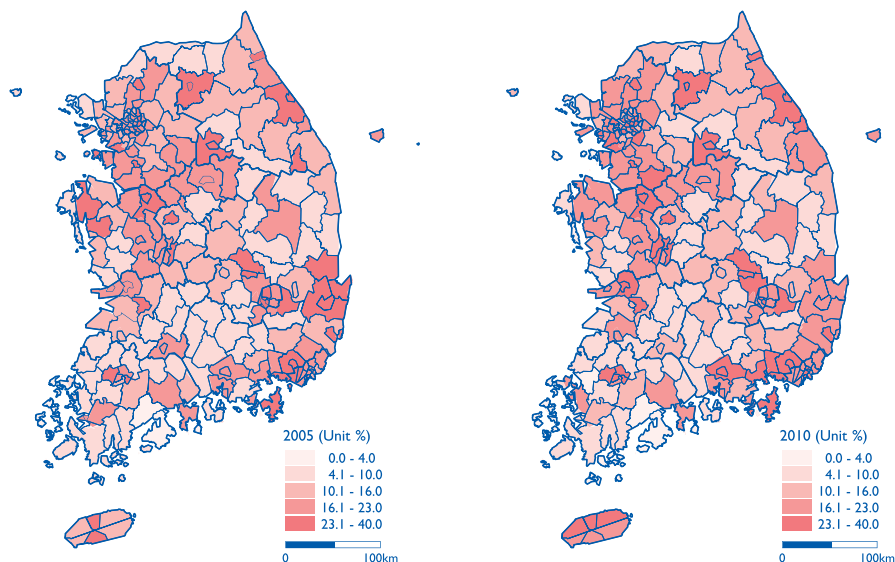
MRD households have been increasing, especially since 1990. However, the increase has not been the same in the country, and it differs by region. As can be seen in the figure below, the spatial distribution of MRD has been different by region.

Figure 3. Percentage change of MRD households (1985-2010)

Source: Choi Eun-yeong and Gwon Pil-sun. 2012. Changes in the Housing Characteristics of Population and Households (1985-2010). p.203





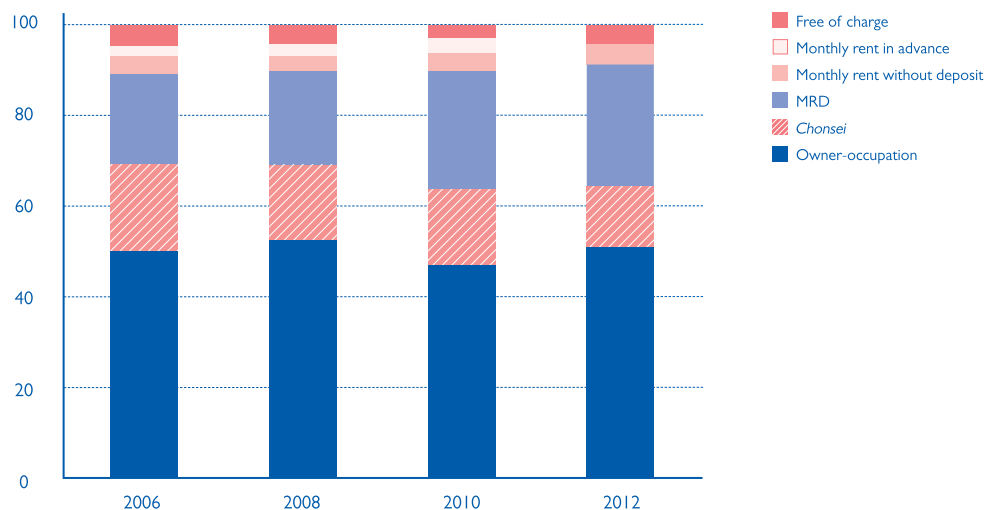


## 1.2 Regional differences in housing tenure changes

The structural changes of the rental market differ by region, with the Seoul capital area and the metropolitan cities showing the greatest changes since 2010. The capital area has shown a decrease in owner occupation rate and an increase in MRD, and the metropolitan cities have shown a decrease in *chonsei* and an increase in MRD.

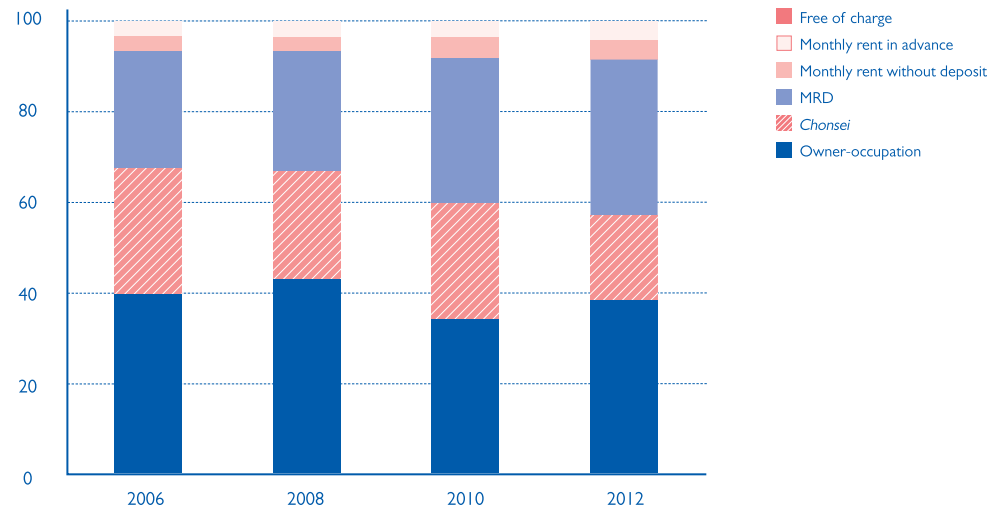
**Figure 4. Changes in the rental market of low-income households nationwide and in the Seoul capital area**

### Low-income households nationwide



Source: Housing Condition Survey, General Survey of Each Year (2006, 2008, 2010, 2012)

Low-income households in the Seoul capital area



In terms of income level, low-income households, especially living in small units (60m<sup>2</sup> and below), are rapidly shifting into MRD. The percentage of MRD increased greatly from 20.1 percent in 2008 to 24.9 percent in 2010 to 41.4 percent in 2012.

Table 2. Housing tenure changes for small size units (less than 60m<sup>2</sup>)

(Unit: %)

Source: Ministry of Land, Transport and Maritime Affairs. Housing Condition Survey of Each Year

	Owner - occupancy	Chonseil	MRD	Monthly Rent without Deposit	Free of Charge
2006	42.3	24.6	24.2	4.8	4.2
2008	55.4	19.2	16.6	3.2	5.7
2010	50.3	18.2	21.2	3.7	6.6
2012	39.6	24.5	29.0	2.9	4.1

## 2. Housing conditions of renters in the private market

### 2.1 Characteristics of households and income level

Among private rental households, *chonsei* households show a high percentage of middle-income household heads aged between 31 and 64. As can be seen from the table below, MRD renters are more likely to be household heads with low income aged under 30 or over 60, indicating that the income and household heads' age are polarized: 67.6 percent of MRD households and 87.1 percent of monthly rent without a deposit belong to the low-income bracket. MRD also has a high percentage of tenants aged

under 30. Over 26 percent of households living with monthly rent without a deposit are older, over the age of 65.

**Table 3. Income bracket and the age of household head in the private rental market**

(Unit: %)

Category	Income Bracket			Age of Household Head				Total
	Low-income	Middle-income	High-income	Less than 30	31-40	41-65	More than 65	
<b>Chonsei</b>	39.3	48.1	12.4	7.2	30.9	48.4	13.5	100.0
<b>MRD</b>	67.6	27.9	4.6	16.5	22.1	49.4	12.0	100.0
<b>Monthly Rent without Deposit</b>	87.1	10.3	2.6	16.8	15.6	41.5	26.2	100.0

Source: Ministry of Land, Transport and Maritime Affairs. 2011 Housing Condition Survey: Survey of Households Living in Private Rental Units

Note 1: Monthly rent without deposit includes monthly rent without deposit and daily rent.

Note 2: Low-income 1-4 quantile group (less than \$2,100, 8,512 households), Middle-income 5-8 quantile group (5,420 households), High-income 9-10 quantile group (more than \$4,230, 1,141 households)

Households residing in the private rental market tend to be vulnerable households including elderly, single elderly, physically or mentally challenged, and those receiving welfare assistance. As can be seen from the table, 26 percent among monthly rent without deposit are elderly households, 16 percent are single elderly households, 10 percent are physically or mentally challenged households, and 18 percent are households under livelihood assistance, all indicating higher percentages than MRD households.

**Table 4. Distribution of vulnerable households among private rental households by tenure type**

(Unit: %)

	Elderly Households	Single Elderly Households	Physically or Mentally Challenged Households	Households under Livelihood Assistance
<b>Chonsei</b>	13.5	6.6	4.6	3.3
<b>MRD</b>	12.0	5.7	6.1	6.2
<b>Monthly Rent without Deposit</b>	26.2	15.7	10.0	17.6

Source: Ministry of Land, Transport and Maritime Affairs. 2011 Housing Condition Survey: Survey of Households Living in Rental Housings

The average monthly income of private rental market households is \$2,730 for *chonsei* households, \$2,050 for MRD, and \$1,230 for monthly rent without deposit. In terms of the assets and liabilities of the private rental market households, MRD households had extremely low net assets compared to *chonsei* households. *Chonsei* households have assets of approximately \$160,000 and liabilities of \$14,000, meaning that the liability to asset ratio is 9%. While the liability to asset ratio of MRD households is 19%, the liability to asset ratio of households living with monthly rent without deposit stands at 92%, which is extremely high.

**Table 5. Income, assets and liability size of private rental households**

(Unit: US\$, %)

Source: Ministry of Land, Transport and Maritime Affairs, 2011 Housing Condition Survey: Survey of Households Living in Rental Housings

Note: This study converted won to dollar by applying the exchange rate of USD 1 = KRW 1,000 for easy understanding.

	Average Monthly Income	Assets ①	Liabilities ②	Net Assets	Percentage of Liability (②/①)
<b>Chonsei</b>	2,732	158,550	14,430	144,120	9
<b>MRD</b>	2,054	48,794	9,629	39,165	19
<b>Monthly Rent without Deposit</b>	1,228	11,636	10,790	846	92

## 2.2 House characteristics

Renters with different lease contracts live in different types of dwellings. For example, *chonsei* households mainly reside in apartments, MRD in single-detached houses, and monthly rent without deposit mostly in old and deteriorated houses.

**Table 6. Distribution of private rental households by tenure and dwelling type**

(Unit: %)

Source: Ministry of Land, Transport and Maritime Affairs, 2011 Housing Condition Survey: Survey of Households Living in Rental Housings

	Single-detached House	Apartment	Row House	Multi-family House	Other	Total
<b>Chonsei</b>	35.4	52.8	4.2	6.1	1.6	100.0
<b>MRD</b>	59.8	23.8	1.9	6.7	7.7	100.0
<b>Monthly Rent without Deposit</b>	70.6	9.6	1.0	5.4	13.5	100.0

**Table 7. Duration of time since construction of private rental households**

(Unit: %)

Source: Ministry of Land, Transport and Maritime Affairs, 2011 Housing Condition Survey: Survey of Households Living in Rental Housings

	Less than 10 years	10-15 years	15-25 years	25-35 years ①	35-45 years ②	More than 45 years ③	Percentage of (①+②+③)	Total
<b>Chonsei</b>	21.2	19.5	37.3	18.8	2.4	0.8	22.0	100.0
<b>MRD</b>	10.6	18.2	38.8	27.8	3.1	1.5	32.4	100.0
<b>Monthly Rent without Deposit</b>	5.8	7.6	36.9	23.8	15.7	10.2	49.7	100.0

The number of rooms in rental households was higher in the order of *chonsei* > MRD > monthly rent without deposit, whereas the percentage of households living in substandard housing units was higher in the order of monthly rent without deposit > MRD > *chonsei*.

**Table 8. Number of rooms and area of private rental household housings**

(Unit: %)

	Number of Rooms		Housing Space Consumption		
	Households with One Room (%)	Average (number)	Households with Houses less than 40m <sup>2</sup> (%)	Area per Household (m <sup>2</sup> )	Area per Person (m <sup>2</sup> )
<i>Chonseï</i>	8.0	2.5	17.8	63.3	21.1
<b>MRD</b>	34.1	1.9	49.4	45.0	22.5
<b>Monthly Rent without Deposit</b>	53.2	1.6	64.4	37.4	18.7

Source: Ministry of Land, Transport and Maritime Affairs, 2011 Housing Condition Survey: Survey of Households Living in Rental Housings

**Table 9. Percentage of private rental households living in substandard housing units**

(Unit: %)

Category Falling Short of Minimum Housing Standards	Deficit in minimum space	Deficit in the number of rooms	Deficit in facilities	Total of households living in substandard units
<i>Chonseï</i>	2.2	12.1	3.1	15.6
<b>MRD</b>	7.5	15.1	7.2	24.5
<b>Monthly Rent without Deposit</b>	16.1	10.5	36.1	45.9

Source: Ministry of Land, Transport and Maritime Affairs, 2011 Housing Condition Survey: Survey of Households Living in Rental Housings

To compare the monthly rent of different rent contracts, deposit was converted into monthly rent by applying an interest rate of 9 percent. It showed that *chonseï* renters paid \$670 per month, \$420 for MRD, and \$290 for monthly rent contract without a deposit. The rent burden is higher for *chonseï* renters and lower for MRD when both monthly rent payment and maintenance cost are considered.

The RIR2, which is the percentage of total housing expenses (a sum of average rent per month and housing maintenance cost) in the average monthly income, was about 31 percent for *chonseï* households and monthly rent without deposit households and about 27 percent for MRD.

**Table 10. Monthly rent and RIR of private rental households**

(Unit: US\$, %)

	Average Monthly Rent ①	Housing Maintenance Fees ②	Average Monthly Income ③	RIR <sub>1</sub> (①/③)	RIR <sub>2</sub> {((①+②)/③)}
<i>Chonseï</i>	673	165	2,732	246	307
<b>MRD</b>	418	139	2,054	204	271
<b>Monthly Rent without Deposit</b>	285	95	1,228	232	309

Source: Ministry of Land, Transport and Maritime Affairs, 2011 Housing Condition Survey: Survey of Households Living in Rental Housings

Note: Applied Monthly Rent Conversion Rate of Annual 9%

## 2.3 Findings

According to the analysis of rental households' housing conditions, the changes in the rental market will most likely affect MRD households than *chonsei* renters among private market tenants. *Chonsei* households tend to be larger households than monthly rent ones, and the head of a household is more likely to be younger and be in the most economically active group aged between 41 and 65 than other types of rental contract. It is no surprise that households residing with *chonsei* have a relatively large amount of assets than monthly rent contract tenants, considering the fact that living with *chonsei*

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**Monthly rent households reside in relatively poor living conditions than *chonsei* tenants. The dwelling units of monthly rent households are more likely to be single-detached or multi-family units, smaller in size and more deteriorated compared to *chonsei* households.**

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requires a large lump-sum deposit upfront. However, at the same time, *chonsei* households show high expenditure on housing cost due to the amount of deposit and maintenance cost, totalling over 30 percent of the monthly income. In addition, considering high expenditure on living cost of middle-aged households, if housing cost rises further, then they might have no choice but shifting their tenure from *chonsei* to MRD or monthly rent. In this regard, it is advisable to move the tenure type upwards to ownership by accumulating more assets or leveraging a mortgage. However, there are difficulties in providing alternatives, such as costs of child rearing and preparation for life after retirement, are also considerable during this period, while at the same time, the number of available *chonsei* is decreasing.

Monthly rent households reside in relatively poor living conditions than *chonsei* tenants. The dwelling units of monthly rent households are more likely to be single-detached or multi-family units, smaller in size and more deteriorated compared to *chonsei* households. Among monthly rent households, monthly rent without deposit shows poorer living conditions than MRD. Also, monthly rent households have relatively less income and expenditure, longer periods of non-home ownership, and a higher percentage of extremely low-income families.

Most Koreans in the private rental markets consider deposit money as seed money for purchasing houses in the future. This implies that improving home ownership requires encouraging the accumulation of deposit amount. Thus, policy makers should consider the way to support the accumulation of assets in order to achieve better outcomes in home ownership and housing conditions. Households with monthly rent without a deposit are the most vulnerable group in the private rental market, so policy consideration should not be ignored for this group.

# Changing Landscape of the Private Rental Market

## I. Trends of transaction volume in *chonsei* and MRD contract

### I.1 Ratio of *chonsei* to MRD contract

The ratio of *chonsei* transactions to MRD transactions has changed from 67:33 in 2011 to 61:30 in 2013, and to 57:43 in the first half of 2015, implying that the amount of *chonsei* transaction is continually decreasing.

Table 11. Percentage change in *chonsei* and monthly rent transactions by year

	2011	2012	2013	2014	First Half of 2015
<b><i>Chonse</i>i and Monthly Rent Transactions (ten thousand houses)</b>	132.1	132.4	137.3	137.3	77.1
<b>Percentage of <i>chonsei</i> (%)</b>	67.0	66.0	60.6	60.6	56.6
<b>Percentage of Monthly Rent (%)</b>	33.0	34.0	39.4	41.0	43.4

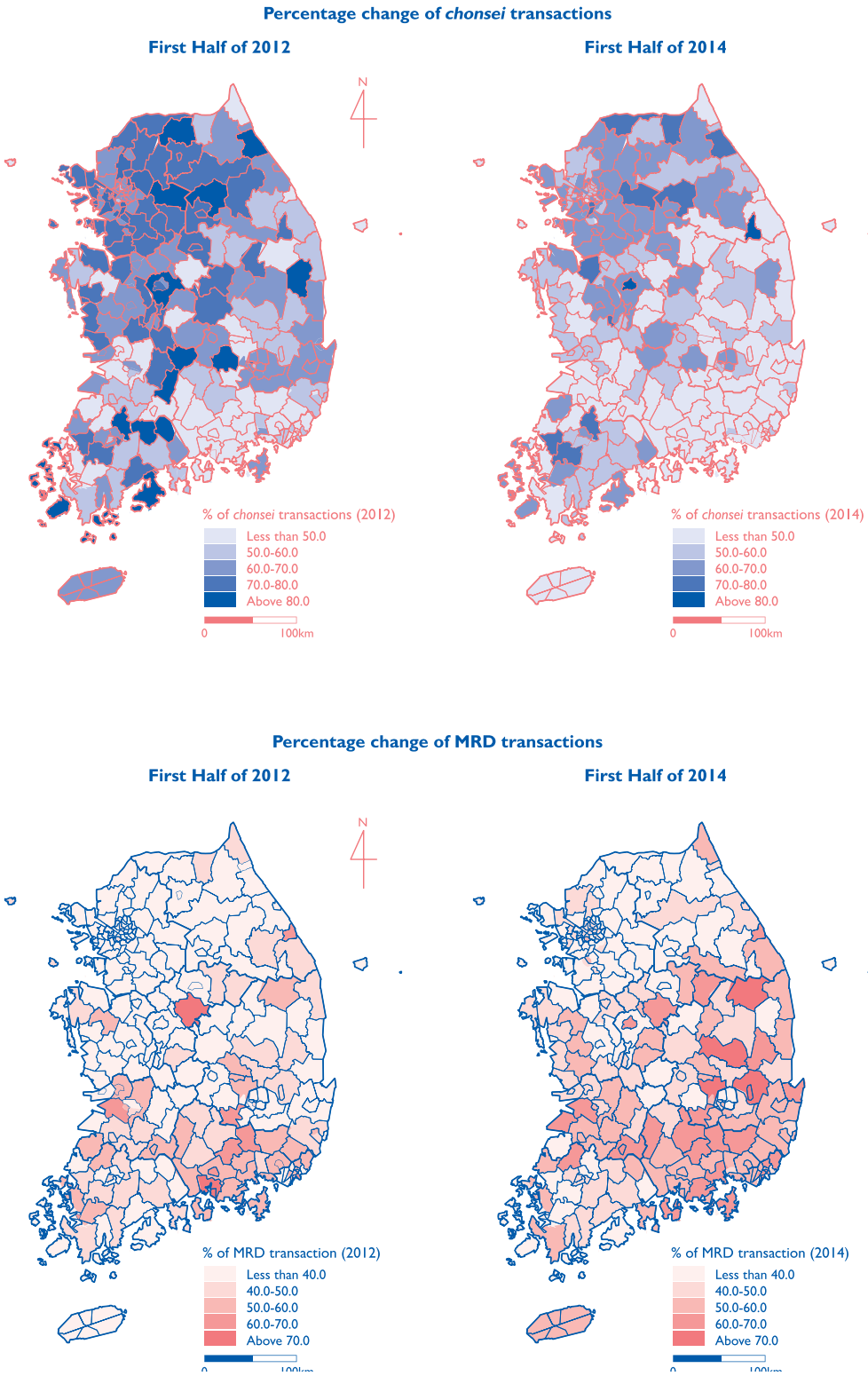
Source: Ministry of Land, Infrastructure and Transport (MOLIT), Lease Contract Transaction Data

### I.2 Regional differences in *chonsei* and MRD transactions

The percentage of monthly rent is high in the southern part of the country, including Busan and Ulsan, and the percentage is low in the Chungcheong and Gyeonggi regions. The decrease in *chonsei* is prominent in non-capital areas compared to the capital region. MRD contracts are prevalent in Korea’s Southeast regions, such as Busan, Ulsan, and Gyeongnam. *Chonse*i is strong in the northwest of Korea, including the capital area, and MRD is strong in the southeast of Busan.

Figure 5. Regional representation of lease transactions percentage change

Source: MOLIT, Lease Contract Transaction Data





## 2. Characteristics of *chonsei* transactions

### 2.1 Decrease in affordable *chonsei* and increase in expensive *chonsei*

Transaction of affordable *chonsei* with deposits less than \$50,000 has decreased gradually, whereas expensive *chonsei* with deposits of more than \$300,000 has been on the rise.

**Table 12. Percentage changes in *chonsei* transaction by deposit amount**

thousand dollars	Proportion of Transactions (%)			
	2011	2012	2013	2014 (1 <sup>st</sup> half)
<b>Less than 50</b>	27	24	24	23
<b>50 ~ 100</b>	30	29	28	27
<b>100 ~ 150</b>	18	19	18	17
<b>150 ~ 200</b>	11	12	12	12
<b>200 ~ 250</b>	6	7	7	7
<b>250 ~ 300</b>	3	4	4	5
<b>300 and above</b>	4	5	7	8
<b>Total</b>	100	100	100	100

Source: MOLIT, Lease Contract Transaction Data

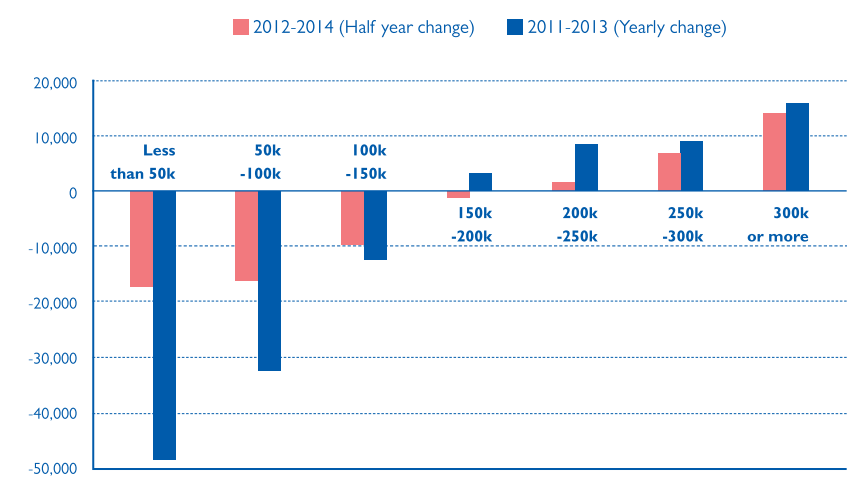
The decline of affordable *chonsei* within a deposit range of \$20,000 to \$40,000 was especially prominent.

*Chonsei* of more than \$300,000 accounted for only 4 percent of the total number of transactions in 2011 but increased to 10 percent in 2014 (and to 12 percent during the first half of 2015). However, such expensive *chonsei* with a deposit of more than \$300,000 are mostly concentrated in the Seoul capital area, a distinctively regional phenomenon.

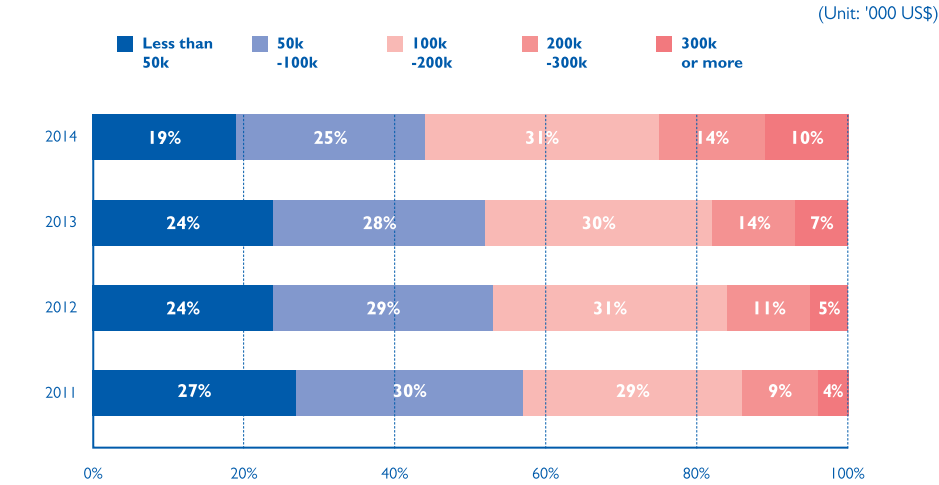
**Figure 6. Changes by *chonsei* deposit amount and distribution changes by deposit size and year**

Source: MOLIT. Lease Contract Transaction Data

**Changes by *chonsei* deposit amount**



**Distribution changes by deposit amount over time (nationwide)**



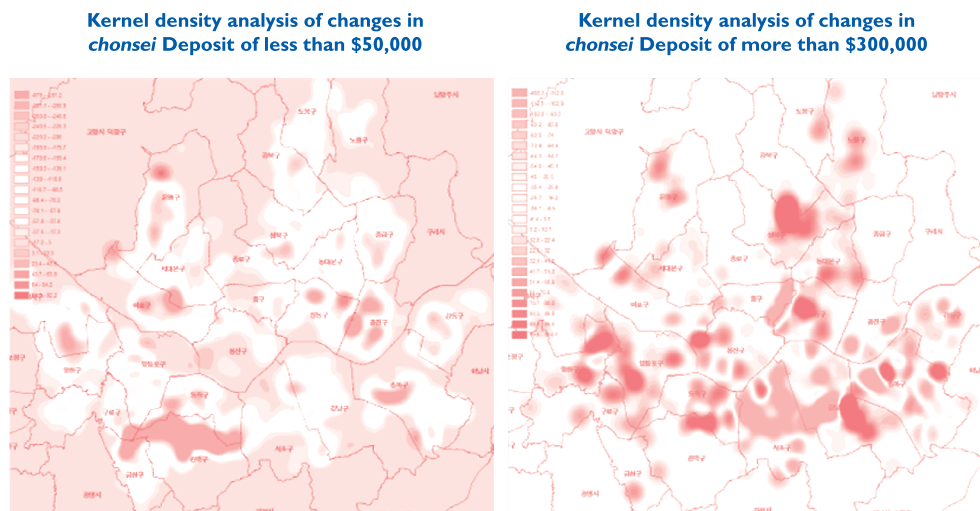
## 2.2 Spatial differentiation of *chonsei* units by deposit amount

The decrease in affordable *chonsei* is spatially concentrated, and the increase in expensive *chonsei* is occurring locally. Through kernel density analysis<sup>01</sup>, it was confirmed that affordable *chonsei* with deposits less than \$50,000 has decreased compared to the last two years (2012-2014) and that the decrease is spatially concentrated. The decrease of affordable *chonsei* is occurring across a relatively extensive area. On the contrary, expensive *chonsei* with a deposit of more than \$300,000 is increasing locally in specific areas, such as a large apartment complex within a good school district which has high educational performance.

Therefore, after a two year lease contract is terminated, renters will face a situation in which *chonsei* units are generally decreasing and feel that it is difficult to find affordable *chonsei*. At the same time, they will be more likely to feel that *chonsei* supplies that require an expensive deposit have increased.

01. Kernel density analysis is a spatial analysis method estimating the spatial density of a certain area based on the distribution of points on phenomena distributed over space.

**Figure 7. Spatial analyses of changes in affordable and expensive *chonsei***



Source: MOLIT. Lease Contract Transaction Data

Note: The darker the color red, the more concentrated the increase in transaction, and the darker the color blue, the more concentrated the decrease in transaction compared to two years ago.

### 3. Characteristics of monthly rent transactions

#### 3.1 Decrease in affordable MRD and increase in expensive MRD

Contrary to *chonsei*, most MRD deposits are less than \$50,000. Houses requiring MRD deposit of less than \$50,000 were 83 percent in 2011 and 81 percent in 2014.

**Table 13. Increase of transactions by monthly rent deposit size**

(Unit: '000 US\$)

Monthly Rent Deposit	2011	2012	2013	2014
	%	%	%	%
Less than 50	83	82	82	81
50 ~ 100	13	13	12	12
100 ~ 150	3	3	3	3
150 ~ 200	1	1	1	1
200 ~ 250	0	0	1	1
250 ~ 300	0	0	0	0
300 and above	0	0	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

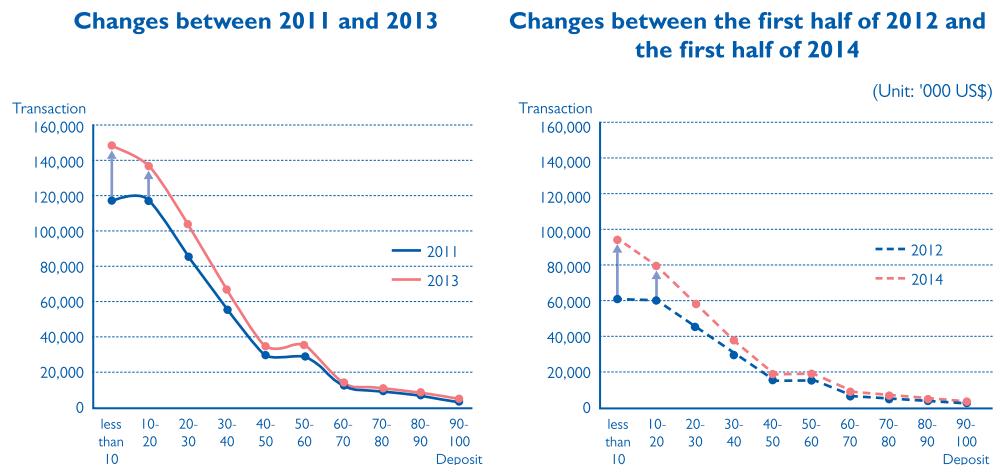
Source: MOLIT, Lease Contract Transaction Data

MRD with small-sized deposits of less than \$10,000 and \$20,000 increased rapidly from 2011 to 2013 and from the first half of 2012 to the first half of 2014.

**Figure 8. Changes by monthly rent deposit size (deposit less than \$100,000)**

Source: MOLIT, Lease Contract Transaction Data

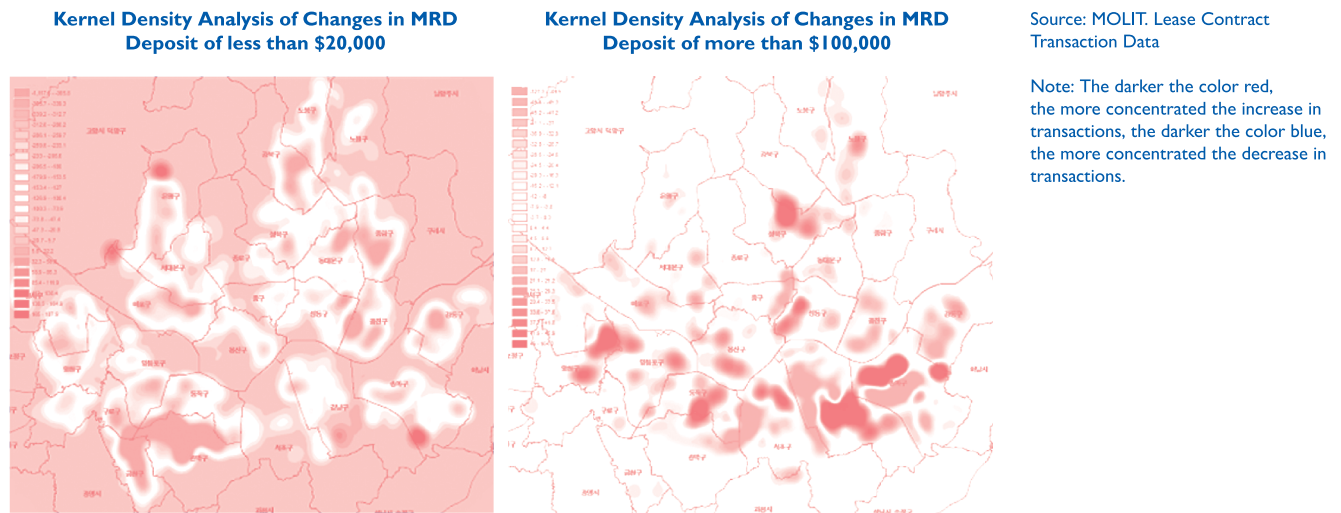
Note: The horizontal axis indicates deposit size, the vertical axis indicates the volume of transactions.



### 3.2 Spatial differentiation of MRD units by deposit amount

MRD with small deposits is increasing rapidly while MRD with expensive deposits is increasing regionally. According to the transaction changes of rental housing units with deposits less than \$20,000 of 2014 compared to that of 2012, these small-deposit MRD are decreasing all around Seoul, while in some areas they have increased. On the other hand, MRD with expensive deposits which requires a deposit of more than \$100,000 are increasing intensively in areas in which housing prices and *chonsei* prices are high.

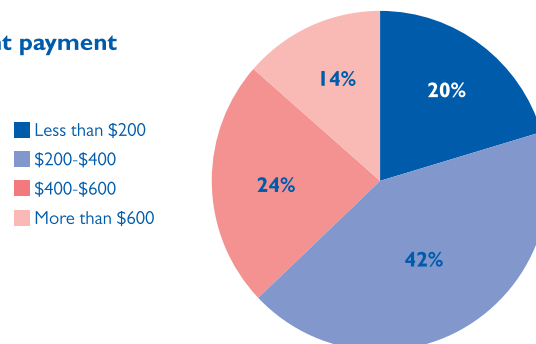
**Figure 9. Spatial analyses of MRD with small deposit and MRD with expensive deposit**



### 3.3 Monthly rent payment

MRD comes with a monthly rent. Regardless of deposit size, monthly rent payment is mostly around \$200 to \$400. A monthly rent of less than \$400 accounts for 62 percent of the total, less than \$200 takes up 20 percent, and \$200-300 occupies about 20 percent. 24 percent of MRD households pay \$400-600 every month, and 14 percent spend more than \$600 on their monthly rent. As the deposit size in Korea is incomparably greater than other countries, monthly rent payment is relatively low.

**Figure 10. Composition of monthly rent payment**



Looking at the distribution of monthly rent by deposit size, the increase in monthly rent with a small deposit size such as less than \$10,000 or \$20,000 was prominent between 2011 and 2013, as can be seen in the figure below. Also, the lower the deposit, the higher the monthly rent was, and the higher the deposit, the lower the monthly rent was, aptly demonstrating the risk premium of small amount of deposit. A similar aspect appeared during 2012 to 2014. MRD with small deposits of less than \$10,000 especially had the most monthly rent at around \$300, showing the highest rent burden. However, monthly rent tends to be lower when the deposit level is high, so it is imperative to seek policy alternatives for this group to increase their deposit level.

Figure 11. Distribution of monthly rent by MRD deposit (2011-2013)

Source: MOLIT, Lease Contract Transaction Data

Note: The horizontal axis indicates monthly rent, the vertical axis indicates the volume of transactions, and each line indicates number of transaction of MRD deposit segments

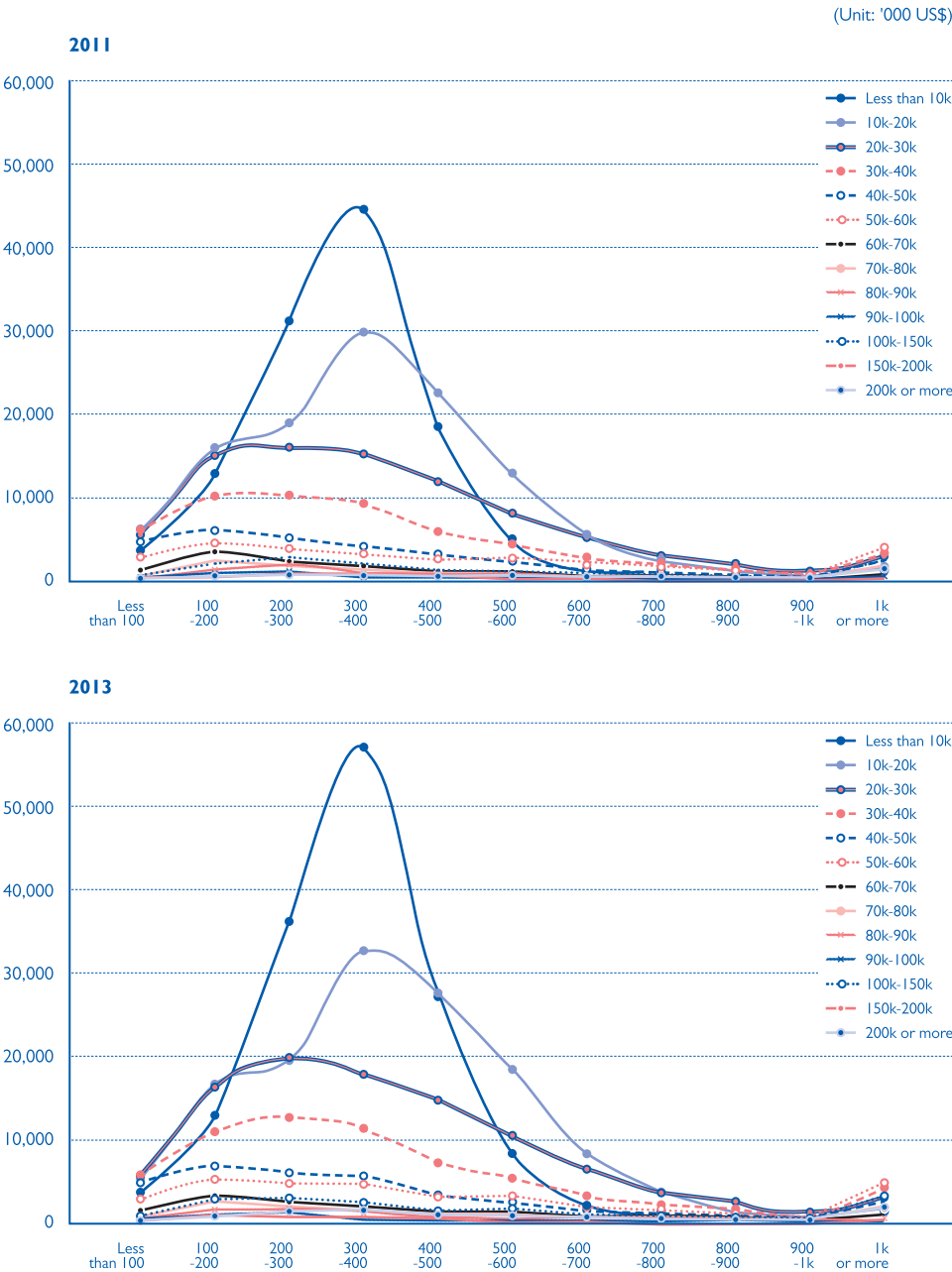
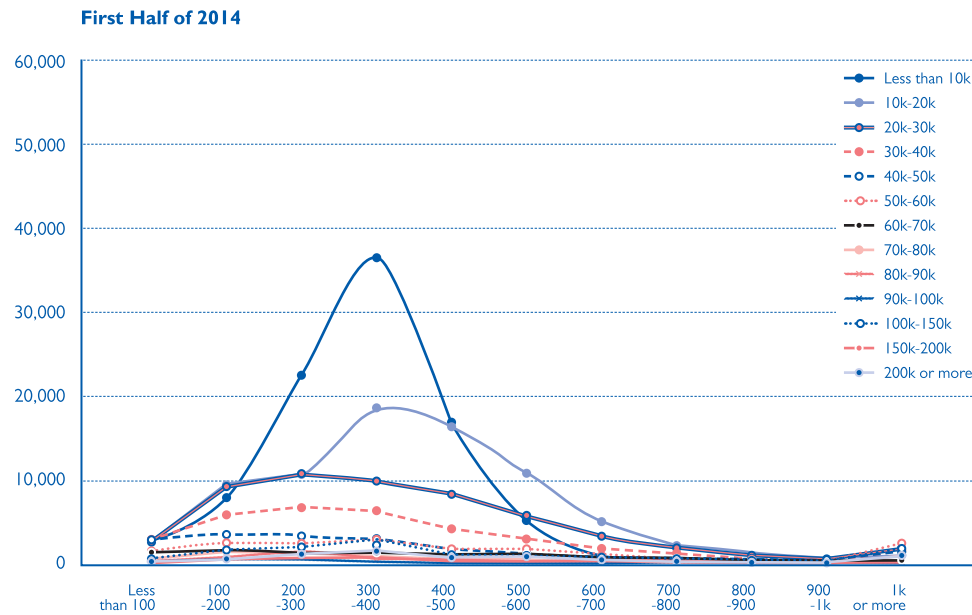
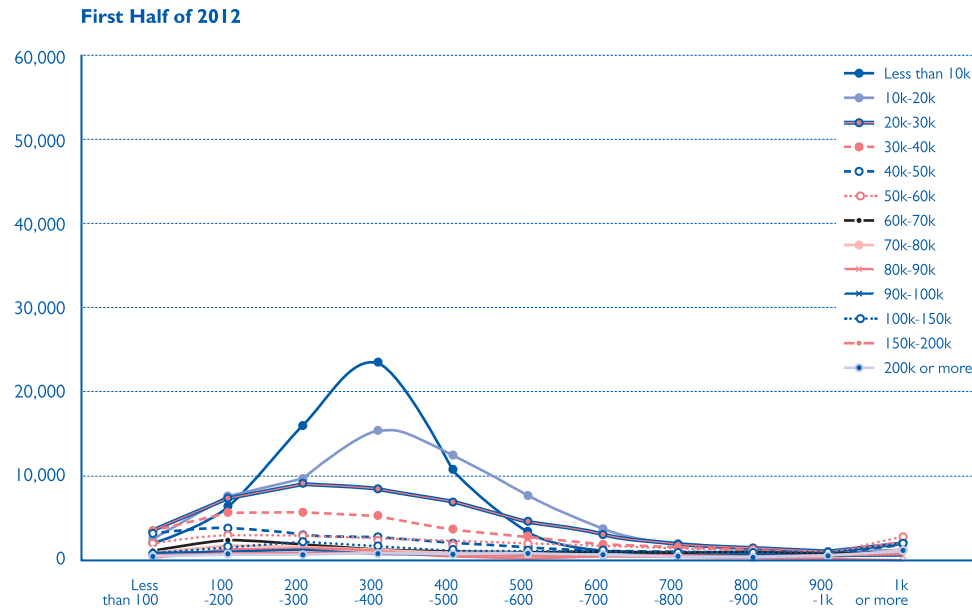


Figure 12. Distribution of monthly rent by MRD deposit (2012-2014)

(Unit: '000 US\$)



## 4. Transaction characteristics by age group

### 4.1 Changes in the amount of lease transaction by age group of the head of the household

The amount of lease transaction by the head of households in their twenties increased rapidly while the amount decreased for the head of households in their forties or older. As can be seen from the table, the overall amount of transactions increased 3 percent from 2011 to 2013, but the increase in transactions mostly occurred for the head of households in their twenties. This seems to reflect changes in the life cycle. Those in their forties and above are hardly movers due to the education of children and job location. On the contrary, in the case of people in their twenties, changes in housing type occurs frequently by forming new households from entering university, moving out, getting married, or employment.

**Table 14. Changes in the amount of lease transaction by age group**

(Unit: thousand, %)

Source: MOLIT, Lease Contract Transaction Data

Note: 2012 means total transactions of the year 2012, and FH'12 means transactions of the first half of 2012

Category	Age Group	Amount of Transactions				Increase	
		2011	2012	2013	2014	2011-2013	FH 2012-FH 2014
Overall	20s	116	150	201	140	73%	72%
	30s	487	495	497	258	2%	4%
	40s	429	404	398	204	-7%	-3%
	50s	235	220	226	117	-4%	2%
	60 or over	176	168	170	88	-3%	2%
	<b>Total</b>	<b>1,443</b>	<b>1,438</b>	<b>1,491</b>	<b>808</b>	<b>3%</b>	<b>9%</b>
Chonsej	20s	54	71	89	59	63%	53%
	30s	326	336	317	159	-3%	-5%
	40s	286	266	237	118	-17%	-15%
	50s	157	145	137	69	-13%	-10%
	60 or over	125	114	109	53	-13%	-10%
	<b>Total</b>	<b>948</b>	<b>933</b>	<b>889</b>	<b>459</b>	<b>-6%</b>	<b>-5%</b>
Monthly Rent	20s	62	79	112	81	82%	90%
	30s	161	159	179	99	11%	23%
	40s	144	138	161	87	12%	22%
	50s	77	75	89	48	15%	26%
	60 or over	51	54	61	35	20%	29%
	<b>Total</b>	<b>494</b>	<b>504</b>	<b>602</b>	<b>349</b>	<b>22%</b>	<b>35%</b>



Also in the case of *chonsei*, the heads of households in their twenties have increased while the heads of households over thirty have decreased. The head of households in their forties decreased 17 percent in 2013 compared to in 2011. *Chonsei* is decreasing in all age groups, but exceptionally increasing in the twenties. There is a high probability that people in their twenties who have newly entered the rental market by starting out in a career or creating a new household have received financial support from their parents. Therefore, the data demonstrates the possibility that the parent generation's ability to mobilize funds or wealth has been passed on to the next generation. Later on, these changes may develop into the possibility of leading a stable housing life, such as buying a house for these generations; thus, the special attention of policy makers is needed to reduce the home ownership gap between the haves and have-nots.

## 4.2 Differences in lease prices by age group

*Chonsei* prices increased by 13 percent on average from 2011 to 2013. The rate of *chonsei* deposit increases of people in their twenties and thirties exceeded 20 percent. The *chonsei* deposit in 2011 was short of \$110,000 on average, but it increased in 2013 to \$120,000, and rose to \$130,000 in the first half of 2014. Among the age groups, the deposit of people in their forties was the highest, approaching \$150,000 as of 2013.

**Table 15. Average price and changes of *chonsei* deposit by age group**

(Unit: '000 US\$, %)

	Average <i>Chonsei</i> Deposit				Rate of Increase	
	2011	2012	2013	First Half of 2014	'11-'13	'12-'14(1 <sup>st</sup> Half)
<b>20s</b>	56	63	68	72	21%	20%
<b>30s</b>	99	113	123	134	24%	24%
<b>40s</b>	129	140	149	162	15%	19%
<b>50s</b>	126	130	136	147	8%	13%
<b>60s+</b>	96	105	103	106	7%	-1%
<b>Total</b>	<b>110</b>	<b>119</b>	<b>124</b>	<b>132</b>	<b>13%</b>	<b>14%</b>

Source: MOLIT, Lease Contract Transaction Data

### 4.3 The gap between people in their twenties by tenure type

“

Considering the economic situation and the ability to mobilize the funds of renters in their twenties, there is a high possibility that the wealth of the parent generation was transferred to these renters, connoting the possibility that inequality in the housing market between generations and within a generation may deepen in the near future.

”

In the case of people in their twenties, as they increasingly enter the housing market through *chonsei* and MRD, the gap between apartments and non-apartments was clear. The average deposit size of *chonsei* is greater compared to MRD, and the apartment *chonsei* deposit is nearly twice the amount of the non-apartment *chonsei* deposit.

Considering the economic situation and the ability to mobilize the funds of renters in their twenties, there is a high possibility that the wealth of the parent generation was transferred to these renters, connoting the possibility that inequality in the housing market between generations and within a generation may deepen in the near future.

Table 16. Changes in lease amount of people in their 20s by house type

(Unit: US\$)

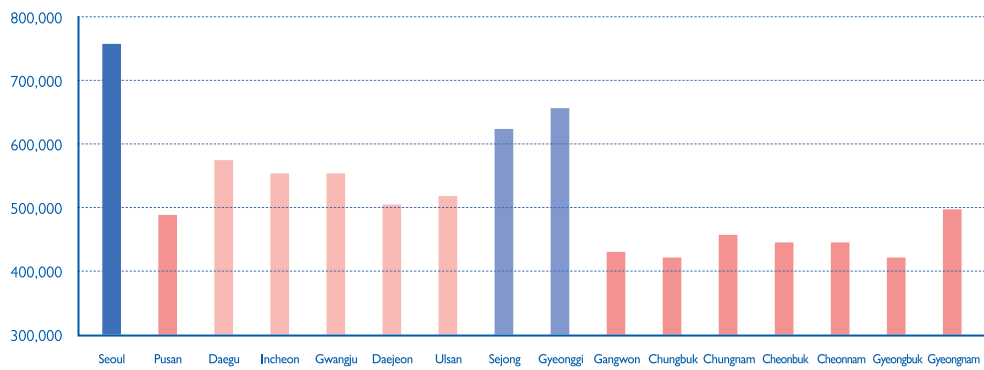
Source: MOLIT. Lease Contract Transaction Data

Classification		Average Cost			
		2011	2012	2013	1 <sup>st</sup> Half of 2014
<b>Chonsei Deposit</b>	Apartment (a)	92,130	103,700	110,400	119,400
	Non-apartment (b)	47,570	52,560	56,460	59,030
	Proportion (a/b)	1.9	2.0	2.0	2.0
<b>MRD Deposit</b>	Apartment (a)	26,750	28,370	28,540	30,790
	Non-apartment (b)	17,090	18,060	17,960	17,380
	Proportion (a/b)	1.6	1.6	1.6	1.8
<b>Monthly Rent</b>	Apartment	460	460	460	440
	Non-apartment	330	340	340	350

### 4.4 Housing cost by region and age group

This study calculated the monthly rent burden of MRD households by applying regional monthly rent conversion rates provided by the Korea Appraisal Board in 2013 to estimate the monthly rent burden by age group. The results showed that the housing cost burden of tenants in their forties was the highest, followed by tenants in their fifties, thirties, twenties, and sixties. The national monthly average was \$509 for tenants in their twenties, \$642 for tenants in their thirties, \$708 for tenants in their forties, \$644 for tenants in their fifties, and \$507 for tenants in their sixties. The monthly rent of Seoul is far higher than any other regions, followed by Gyeonggi-do. Provinces in non-capital regions show a low level of monthly rent burden.

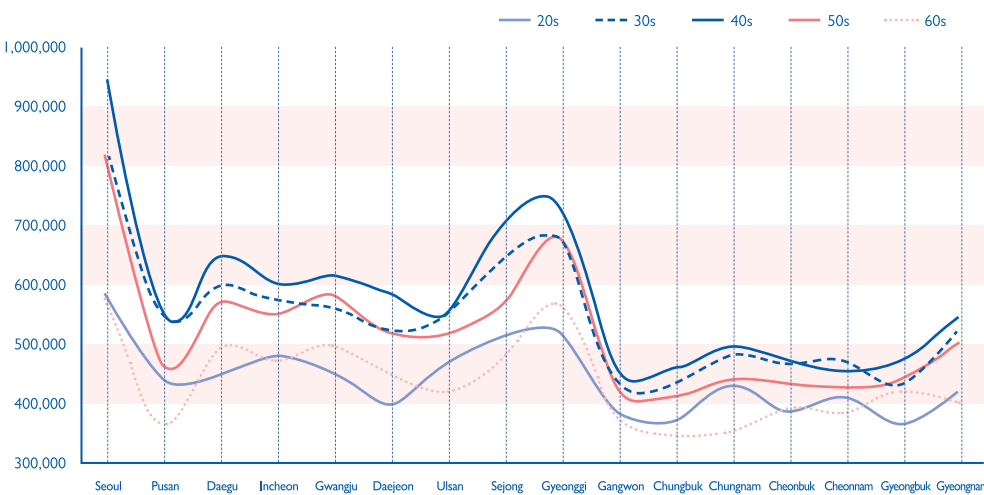
Figure 13. Monthly rent level by region



Source: MOLIT, Lease Contract Transaction Data

Comparing the monthly rent by region and age groups, the housing cost burden of tenants in their forties appears to be highest. The burden of tenants in their forties is greatest in all regions. Provinces, such as Gangwon and Jeonnam, displayed little disparity in rent across age groups, and rent levels were also low.

Figure 14. Monthly rent level by age group and region



Source: MOLIT, Lease Contract Transaction Data

## 5. Characteristics by house type

### 5.1 Characteristics of price by house type

Apartments are favored in Korea. Apartments were preferred since they were regarded as a new way of lifestyle, and they provided capital gains because of price appreciation over time. Also, housewives preferred apartments because of convenient maintenance compared to other house types, such as single-detached houses. Therefore, high prices were formed and active transactions took place. The preference for apartments was not only high in the buying and selling market, but also high in the *chonsei* market; hence, high apartment deposits were developed.

Deposit amount by house type reflects the preference for apartment units. The average *chonsei* deposit of apartments rose 26 percent from \$152,000 in 2011 to \$191,000 in 2014, and the average deposit of non-apartments increased 16 percent from \$63,500 to \$73,880. Also, the *chonsei* deposit of apartments is 2.6 times more expensive than non-apartments. The MRD deposit of apartments rose 14 percent from 2011 to 2013 and up to 29 percent recently (first half of 2012 to first half of 2014), but the MRD deposit of non-apartments stayed the same or even fell. The ratio of the MRD deposit of apartments to non-apartments ranges from 2.1 to 2.8, showing that there are greater changes compared to *chonsei*. The monthly rent expense of apartments approach \$500 on average, but non-apartments maintain a \$330-340 level. Monthly rent did not show much fluctuation during the last two years.

**Table 17. Lease deposit and monthly rent size and changes by house type**

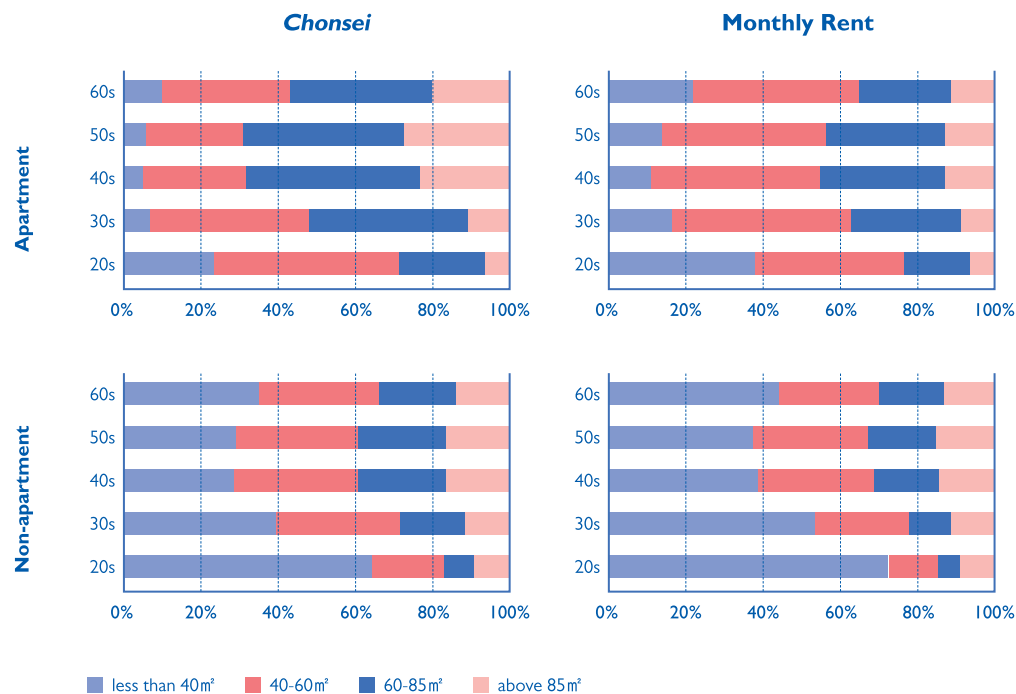
		Amount			
		2011	2012	2013	1 <sup>st</sup> Half of 2014
<b>Chonsei Deposit</b>	Apartment (a)	152	162	175	191
	Non-apartment (b)	63	69	72	74
	Proportion (a/b)	2.4 times	2.3 times	2.4 times	2.6 times
<b>MRD Deposit</b>	Apartment (a)	43	44	49	57
	Non-apartment (b)	20	21	21	20
	Proportion (a/b)	2.1 times	2.1 times	2.3 times	2.8 times
<b>Monthly Rent (dollar)</b>	Apartment(a)	490	490	480	470
	Non-apartment(b)	330	330	340	340
	Proportion (a/b)	1.5 times	1.5 times	1.4 times	1.4 times

There is a big difference in the deposit of apartments and non-apartments. Looking at the size of deposits according to house type by unit area, the deposit per 3.3m<sup>2</sup> of *chonsei* apartments rose rapidly from \$6,500 to \$8,180 and the deposit of non-apartments also rose from \$4,460 to \$5,620. The MRD deposit also rose; price per area of apartments is higher. The *chonsei* deposit of apartments is 1.5 times more expensive than non-apartment types, the MRD deposit is 2.1 to 2.8 times higher and monthly rent is 40 to 50 percent higher.

## 5.2 Comparison of house size distribution by house type and age group

Apartments had a higher percentage of medium- to large-size units compared to other types of dwellings. Non-apartments have an extremely high percentage of small size houses that are less than 40m<sup>2</sup> in all age groups. Comparing within the same house type, *chonsei* had a higher percentage of medium and large size houses than monthly rent. Monthly rent has a higher percentage of houses that are less than 40m<sup>2</sup> or 40-60 m<sup>2</sup> compared to *chonsei*. Also, within the same house and tenure type, the highest percentage of the age group in their twenties lives in the smallest houses. A high percentage of people in their forties and fifties, who are in the household expansion phase, use large size houses compared to other age groups.

**Figure 15. Comparison of lease housing size distribution by age group (2013)**



## 6. Findings and implications

### 6.1 Trend in rental market structure changes

**The rental market experiences the transformation from *chonsei* to MRD. It is time to focus on policy measures to support MRD tenants.**

Based on the analysis of lease contract transaction data from 2011 to the first half of 2014, the conversion from *chonsei* to monthly rent is occurring rapidly in the rental market. Therefore, stabilizing the rental market requires policies that focus on the rental market rather than home ownership and policies that especially support monthly rent tenants. Since 2011, *chonsei* transactions decreased 6 percent across the country, whereas monthly rent increased 22 percent, showing a rapid change into monthly rent. More than two thirds of all transactions are concentrated in the capital area. Although the non-capital area had a higher percentage of monthly rent than the capital region, the decrease in *chonsei* supply and conversion to monthly rent is still noticeable. In particular, although the monthly rent percentage of the Busan, Ulsan, and Gyeongnam areas have been extremely high, nearing 50 percent, the change into monthly rent is still occurring. Provinces, such as Gangwon, Chungnam, and Jeonnam, are also rapidly increasing in monthly rent.

### 6.2 Changes in *chonsei*

**There are a decrease in affordable *chonsei*, an increase in expensive *chonsei*, and regional changes. Actions need to be taken against the lack of affordable *chonsei*. Policy efforts should be placed on market monitoring and consumer protection against the rise in *chonsei* deposit.**

According to the analysis on the *chonsei* market changes, it was discovered that the supply of affordable *chonsei* with a deposit of less than \$100,000 decreased, while expensive *chonsei* increased. Such a phenomenon occurs regionally within a single administrative district and is spatially concentrated. This impedes the housing stability of low-income households in the private rental market.

In areas, such as Gwangju, Jeonnam, Chungbuk, and Gyeongbuk, the decrease in *chonsei* supply was mostly with a deposit of less than \$50,000. In comparison, Gyeongnam along with Seoul, Gyeonggi, and Incheon displayed a prominent decrease in *chonsei* transactions within the \$50,000-100,000 range, confirming that areas of increase and decrease differ by deposit size even within the same city or province and changes are concentrated in certain areas. Thus, policy should be placed on how to tackle these issues that are different by region, by deposit amount, by rental tenure type, and by income level of households. To devise policies suitable for the area and effective in stabilizing low-income housing, it is necessary to find ways to provide more adequate *chonsei* in areas which show a rapid decrease in the supply of *chonsei* in the pertinent price range.

In this regard, the government should arrange programs to expand affordable housing and to establish a system for monitoring local rental housing markets. It should also cope with space-dependent localized market changes by establishing policies based on the analysis of spatial data. Furthermore, the government should strengthen consumer

protection systems in accordance with the *chonsei* deposit rise.

### 6.3 Changes in monthly rent

**There are a rapid increase in MRD with small deposits, an increase in MRD with expensive deposits, regional changes, and deepening worries of low-income households. Measures need to be taken to improve low-income rental housing conditions. Policy needs to be changed from a *chonsei*-centered one to a stronger monthly rent support one to improve fairness. A program to help tenants accumulate deposit is needed.**

A majority of MRD deposit requires less than \$100,000. 95 percent of monthly rent deposits are less than \$100,000, and most deposits are less than \$50,000 (78 percent). Looking at the change between 2011 and 2014, MRD with a deposit of less than \$10,000 or in the \$10,000s is rapidly increasing. However, the monthly rent is mostly concentrated between \$200 and \$400 regardless of the deposit size. Areas, such as Daejeon, Gwangju, Jeonbuk, Chungnambuk, and Jeju, saw a drastic increase of MRD with a deposit of less than \$10,000 by more than 50 percent. On the other hand, Seoul, Incheon, and Gyeonggi witnessed an even higher rise of MRD with deposits of less than \$10,000, \$10,000 to \$20,000, and \$20,000 to \$30,000. The supply of the MRD deposit of less than \$50,000 is noticeable mainly in Seoul, the capital area, and big cities. However, they are also densely distributed and intensifying in certain areas in Seoul, such as Yeongdeungpo, Guro, and Geumcheon.

Similar to the changes in the *chonsei* market, the MRD with expensive deposits (of more than \$100,000) are increasing although small in quantity and are also concentrated in certain areas. The analysis results have made it clear that low-income households should specifically be set as the policy target group and policies to stabilize their housing conditions are in need. Also, the need emerged for a policy that strongly supports MRD rather than *chonsei* and a program that can help accumulate the MRD deposit.

### 6.4 Changes by life cycle

**Policy consideration for those newly entering the housing market is growing in its importance. There are differences by age group and tenure type. It is needed to reduce the housing cost burden for households with children.**

According to an analysis on the lease market changes by life cycle, people in their thirties and forties turned out to be the main players of transactions, taking up 60 percent of all deals. Recently, there has been a prominent increase of people in their twenties entering the market. The cause for recently entering the house market is the formation of new households, such as entering school, moving out, marriage, and employment. The age group that showed an increase of transactions in both *chonsei* and monthly rent is people in their twenties, who are emerging as the main targets to be considered for housing policies. People in their twenties' monthly rent percentage is distinctly high in college-concentrated areas, such as Seoul and Busan. It is followed by Daejeon, Chungnam, and Gyeongbuk, suggesting that these regions are in huge need of affordable monthly rent supply for college students. The *chonsei* deposit of tenants in their twenties and thirties recently entering society has risen steeply. Considering their economic conditions, such as limited ability to mobilize funds or limited job stability,

policy tools should be reviewed to give priority to these age groups and to provide small rental units in areas that have a good access to public transportation.

Meanwhile, people in their thirties and forties who are in their household expansion phase have limits of changing their residence, due to child education and access to jobs. Households with children consider a residential environment safe for their children, and they also weigh a great school district for their children's future. Raising children requires a large space in units. Considering the phenomena recently occurred in Korea, such as low fertility rates and rapid aging, the importance of households with children should be considered in developing policies that favor households with children.

## 6.5 Changes by house type and unit size

**Policies fitting local market conditions need to be implemented according to the detailed analysis of each region.**

In terms of house type, the price level of apartments is far higher than that of non-apartments. The *chonsei* price of apartments is 2.4 to 2.6 times, the MRD deposit is 2.1 to 2.8 times, and monthly rent 1.4 times higher than that of non-apartments. In terms of changes in average unit size, apartments did not show much difference, but non-apartments are decreasing in size. The difference in deposit by age group and house size is palpable, but non-apartments do not clearly differ in deposit or monthly rent. However, in the case of people in their forties and fifties who reside in apartments, the increase in the MRD deposit is pronounced.

In terms of house size, *chonsei* houses are bigger than MRD houses, but the average house size is shrinking. House size is especially decreasing in both extremes of the age groups, people in their twenties and the sixties. People in their twenties show a difference from other age groups in that the average house size of MRD and *chonsei* does not differ greatly. With the average consumed house area decreasing and house deposit per unit increasing due to the rise of the house deposit, the housing expenditure of rental households is increasing.

## 6.6 Housing cost burden

**Ways to support MRD are needed in order to reduce the housing cost burden of small deposit MRD households.**

The rent burden is greatest for tenants living in the capital area and tenants in their forties. According to age groups, the burden of people in their forties is the highest, followed by people in their fifties, thirties, twenties, and sixties. With regard to regions, the housing cost burden of the capital area that includes Seoul and Gyeonggi is higher compared to other provinces. Jeju Island especially puts a huge burden on its tenants compared to other regions as many of its housing requires a yearly rent; special policies that are tailored to the conditions of Jeju Island need to be devised. Small deposit MRDs have a larger burden of monthly rent. Therefore, policies should be placed on MRD households with the low-income level.



# Policy Recommendations

## I. Limitations of previous rental market policy measures

Adapting to the structural changes of the rental market in which *chonsei* is switching over to monthly rent, policy makers should establish customized policies to stabilize the housing conditions of rental households. There have been a series of policy measures in the housing field to boost home ownership and stabilize renters' condition. However, most of them focused mostly on improving the financial accessibility of would-be homeowners or *chonsei* renters. Also, it is hard to find policy tools that consider local characteristics, housing type, the life cycle of households, or deposit level. Ownership-centered and *chonsei*-favored housing policies could not serve the most vulnerable households who suffer from housing hardships in finding decent affordable housing nearby.

One of the characteristics of policy measures was symptomatic. It responded to what happened and provided a general prescription to cover problematic situations. Then, the ability to respond to regional market differences was hard to expect. In order to overcome the previous policy measures, this study proposes several ideas to echo recent rental market changes. These ideas take important aspects into account, which include tenure type, housing type, the life cycle of households, deposit level, and spatial differences.

First, previous policies were focused on boosting home ownership and stabilizing *chonsei* price. Policy efforts were devoted more into home owners' sake when compared with renters. However, in the renters' group, *chonsei* households were favored over MRD renters. Recent rental market conditions show that there has been a growing conversion from *chonsei* into MRD that requires monthly payment for poor housing conditions. In this regard, policy should better focus on rental market participants, in particular MRD renters.

Second, the previous rental market stability measures did not have clear policy targets. For example, the renters of expensive *chonsei* with a deposit of more than \$200,000 were included as recipients for *chonsei* deposit loans and received political support from the government, such as high priority and low interest rates. However, the policy target was somewhat mixed in allocating limited public resources that should consider a fair distribution. As shown in the analysis, MRD households with a small deposit are the most vulnerable segment of the society, as they cannot mobilize a significant amount of

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**Ownership-centered and *chonsei*-favored housing policies could not serve the most vulnerable households who suffer from housing hardships in finding decent affordable housing nearby.**

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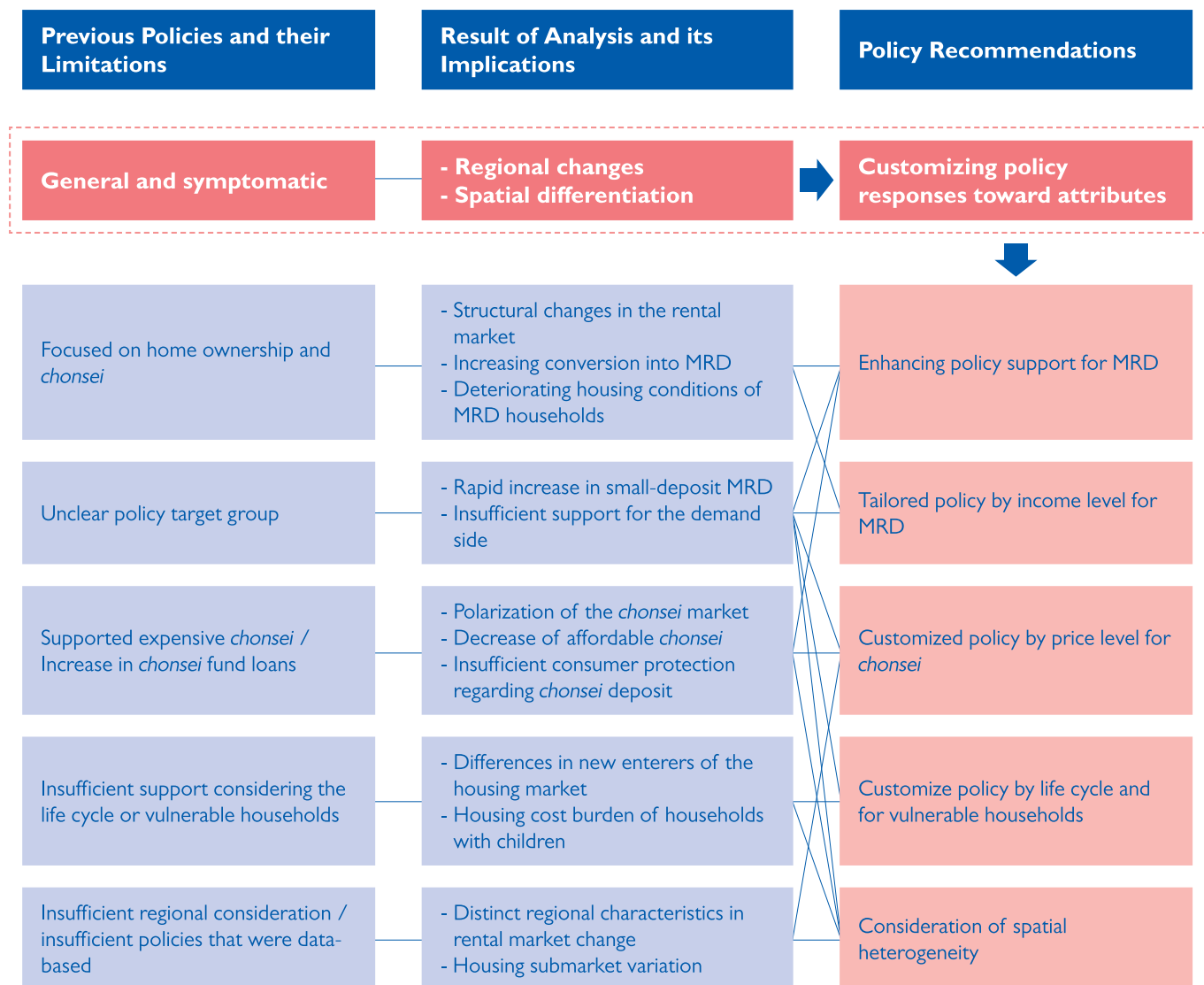
*chonsei* deposit and cannot pay monthly rent, resulting in a high housing cost burden. According to analysis results, there is a rapid increase in the small-deposit MRD and therefore a higher need of support for these renters. Also, consumer support policies for low-income rental households are insufficient, except housing benefits for the lowest-income group. Therefore, it is time to consider policy measures to better serve low-income MRD in the private rental market.

Third, *chonsei* prices are rising as the *chonsei* supply is decreasing due to the preference of MRD of landlords, while *chonsei* demand is constant since tenants prefer *chonsei* over MRD. In addition to the mismatch between demand and supply, the *chonsei* market is polarizing. Affordable *chonsei* is rapidly decreasing, whereas expensive *chonsei* is growing in its pace. Escalating *chonsei* deposit money poses the risk of returning the full amount back when the contract is over. The Tenant Protection Law requires to secure tenure for two years, and landlords have to return the full amount of deposit to tenants. In some cases, when landlords could not find succeeding tenants for the unit, then it is hard to fully return in a timely manner. As the *chonsei* deposit surges, anxieties over returning back the full amount of deposit also grow. Policy makers should deal with providing safety measures to ensure the returning of deposit money.

Fourth, the life cycle of a household plays a critical role in choosing tenure, dwelling, and residential location. Moving out from parents needs small independent units for single households. Married couples tend to choose bigger units and secure tenure types. Starting a family requires enormous changes in not only the size of units but also the quality of neighborhood in terms of security, accessibility to facilities, and good school districts. Analysis shows that young people who entered the housing market for the first time without proper support from their parents face difficulties. Without proper preparation, it happens at present and has a high probability of being continued in the future. Thus, there are growing concerns that it will restrict the enhancement of homeownership that is regarded as the critical element of housing stability. In terms of middle-aged households with children, they have to increase their unit size and prefer locations with good school districts and safe neighborhoods, resulting in high housing costs. Raising children should be recognized by its importance not only for the family itself but also for the society as a whole. Housing is a critical component needed to live a quality life. Various considerations customized to the life cycle of households are imperative. Last but not least, policies should be reinforced to address the housing needs of vulnerable households, such as households facing eviction due to overdue rent, the homeless, and the physically and mentally challenged.

Finally, previous policies have placed not much consideration on regional differences. Recent market changes reflect the limitation of nationwide policies. The growing importance of regional market conditions and the space-dependent nature of the housing market call for policies tailored to regional characteristics based on data analysis. More data is available due to the drive of Government 3.0 which provides more open data to the public. In particular, both rental contract transaction data and house purchase registration data are the most valuable data set for further research and are providing the regional structure of housing market changes. Regional market diversity is becoming more pronounced and expected to advance in the future. Thus, policies considering spatial heterogeneity should be put in place based on accurate data analysis.

Figure 16. Directions of tailored policy responses to ensure rental market stability



## 2. Housing stability measures tailored to tenure type and attributes

### 2.1 Policy measures customized to tenure type: loan program by income level and deposit amount

Table 18. Deposit loan program by deposit amount and income level (example)

(Unit: '000 US\$, %)

Note: Prime Rate discount 0.1%p for one child, 0.3%p for two children, 0.5%p for three children according to number of children

Household Income	Interest rates by deposit amount			
	less than 10	10~50	50~100	100~200
Less than 20	2.6	2.7	2.8	2.9
20~40	2.8	2.9	3.0	3.1
40~60	3.0	3.1	3.2	3.3
Proposed Allotment of Fund	25	50	15	10

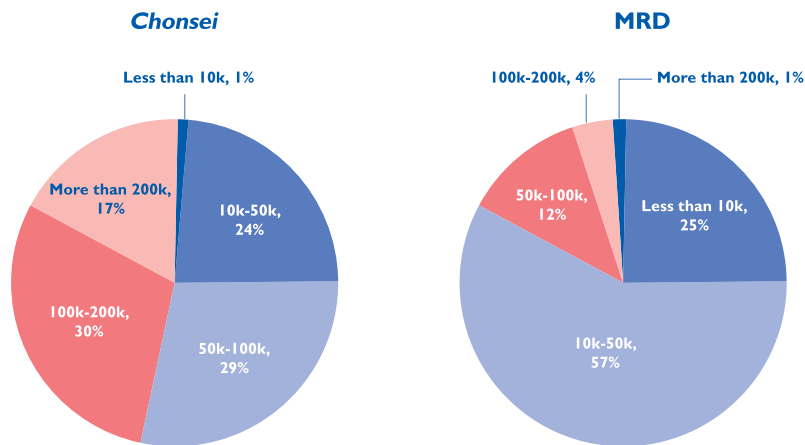
This program intends to enhance the fairness of policy support between home ownership and rent: *chonsei* and monthly rent.

Unlike purchasing funds, the maturity structure of the lease deposit is short-term. Instead of differentiating the interest rate by maturity, the measure sets a benchmark rate for small deposits (for example, income less than \$20,000, deposit less than \$10,000) and applies additional interest according to income and deposit size increase.

Also, the measure assigns funds considering the distribution by lease deposit size and applies a prime rate for childcare in the hopes of lowering the housing cost burden for households with children.

Figure 17. Distribution by lease deposit size

(Unit: '000 US\$)



Source: MOLIT, Lease Contract Transaction Data

Note: Author's calculation using lease contract transaction data from 2011-2014

Table 19. Fund allotment plan considering amount of transactions by deposit size

(Unit: '000 US\$, %)

	Percentage of Lease Transaction Deposit (%)				
	Less than 10	10~50	50~100	100~200	More than 200
MRD	25	57	12	4	1
Chonsei	1	24	29	30	17
Proposed Fund Allotment	25	50	15	10	-

Source: MOLIT, Lease Contract Transaction Data

Note: Author's calculation based on lease contract transaction data from 2011-2014

## 2.2 Policy measures customized to income level: small deposit matching and savings program

The small deposit matching and savings program provide opportunities for low-income households to accumulate assets and strengthen their housing stability by applying a prime rate to the savings program which helps these households pile up their lease deposit. The rationale for introducing this program is based on the fact that the monthly rent decreases as the deposit level increases. In this way, this program is expected to lower the monthly housing cost burden of low-income households with a small deposit.

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**The Monthly Rent Prepayment Aid Program allows tenants to prepay their rent covering a certain period of time in advance, and in return get a discount.**

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The Monthly Rent Prepayment Aid Program allows tenants to prepay their rent covering a certain period of time in advance, and in return get a discount. The government provides a loan to low-income families to cover the prepayment of the monthly rent. Some localities utilize this prepayment scheme in the private rental market, most well-known regions are Jeju Island and Gwangju. Tenants pay annual monthly rent upfront and get a discount compared with month to month payment. For example, those who prepay annual rent give ten months' worth of rent to landlords and reside for twelve months.

The MRD Deposit Guarantee Program is indirect support which promotes housing stability, by which the government reinforces the credit of low-income households that have weak credit. In other words, it is rather an indirect way of support through the public side guarantee. The renter prepares a portion of the deposit which the landlord requires, and the government issues a letter of guarantee for the rest of the portion.

## 2.3 Policy measure customized to price level: an expansion of affordable housing supply based on regional market monitoring

By monitoring the market by region, the supply of affordable *chonsei* housing (deposit less than \$50,000) which is shrinking should be increased. The housing market is divided spatially and regionally centered on the sub-market, so monitoring the regional market is crucial to understanding the fitting issues and policy responses. As was examined earlier, affordable housing is decreasing in concentrated areas and there are certain areas in which expensive *chonsei* is increasing. Therefore, the government should investigate areas where affordable housing is needed and look for ways to provide housing in those areas to improve the housing stability of low-income households. It is essential for this task that regional markets are monitored.

Considering a lack of developable land for housing construction, chances of a new supply of houses are low. Therefore, existing houses should be increasingly utilized, and affordable housing should be built mandatorily when new housing complexes are built. Utilizing inclusionary zoning, measures that require the securing of affordable housing when the construction of houses exceeds a certain scale or granting bonuses of the floor area ratio are currently implemented overseas in the U.S. and Australia.

## 2.4 Policy measures customized to life cycle: 2030 housing support, preferential treatment for households with children

Entering the rental market in their twenties and thirties does not guarantee decent affordable housing conditions, rather they are likely to face the rent burden and end up living in dwelling units with poor conditions. Therefore, short-term housing costs support measures for these groups are needed. These measures will later help them become home owners in the house market, and this in turn will contribute to the overall stability of the housing market and society as a whole.

Households in the household expansion phase such as people in their thirties and forties have various factors that increase household consumption including marriage, childbirth, and children entering school. After a child enters school, parents are especially careful in choosing their place of residence or moving to a new area. They also put in a great amount of effort to choose a residential area that is safe and provides suitable conditions for education, resulting in a steep increase in housing costs. Therefore, there are pressing needs for housing support customized to the life cycle, such as prime rate measures for households with children and giving preference over complex type houses to reduce their housing costs.

“

**Policy consideration for those newly entering the housing market is growing its importance. Also, there are pressing needs for rental subsidy customized to the life cycle.**

”

## 2.5 Policy measure customized to characteristic of region: reinforcing local comprehensive housing plan, monitoring the market, and developing a housing costs burden index

Local districts should take the lead in reinforcing policies, as house policies are barely free from the area in which the house is situated and the policy influence is primarily restricted to the area. The Housing Act mandates local governments to establish and implement local comprehensive housing plans, but it is less effective than it should be. The effectiveness of local comprehensive housing plans needs to be strengthened. It should include several elements, such as analyzing local housing conditions, identifying rental market issues, investigating housing needs, and researching housing market situations. The central government should support the localization of housing policies and search for ways to establish housing funds and procure finances in each region.

Each region should calculate a lease conversion rate based on lease contract transaction data and develop an index starting with the definition and extending to the level of housing costs for overburdened households. This will enable the monitoring of how much the housing cost burden of low-income and poor households have increased or been reduced and how the local rental market is changing.

Figure 18. Summary of five policy measures for customized housing stability

Policy Measure	Plans for Program Implementation
Customized by Tenure Type	Fund Allotment for Loan Program by Income Level and Deposit Size, Preference for Households with Children
Customized by Income Level	Strengthened Support for Low-income and Commoner Households by Income Level, Small Deposit Matching / Savings Program
Customized by Price Level	Increase of Affordable <i>chonse</i> based on Local Market Monitoring, Increase in Guarantee Limit of Real Estate Transaction Accident
Customized by Life Cycle	2030 Housing Support, Preference for Households in the Household Expansion Phase with Children
Customized by Regional Characteristics	Reinforcement of Local Comprehensive Housing Plans, Establishment of Local Market Monitoring System, Development of Housing Cost Burden Index



# Policy Implications for Developing Countries

## 1. Uniqueness of rental lease contract in Korea: *chonsei* and MRD

Korea has developed a unique rental lease contract called *chonsei*. Households in most countries are grouped into distinct categories: owner-occupiers or renters. Renters in the private market pay their monthly rent with a security deposit which is usually equivalent to three to five months' of the rent amount. Under the *chonsei* contract, however, tenants do not need to pay rent on a monthly basis. Instead, they deposit upfront a lump sum of money that is about over a half of the housing price to home owners during the rental contract period which is ensured for two years by the Tenants Protection Act. Once the contract is over, the owners have to give the deposit money back to the tenants. The usage of deposit money during the contract period solely depends on the owners' disposal.

Another distinct type of rental contract is monthly rent with a deposit (MRD). The MRD is similar to the rental contract prevalent worldwide; however, it requires a larger deposit which is equivalent to at least twelve month's rent to over 100 times of the monthly rent amount. Thus, the MRD positions in between the monthly lease contract and *chonsei*. When the *chonsei* price rises, the owners want either to increase the *chonsei* deposit money or to add monthly rent as a substitute of the *chonsei* increase. Households who do not mobilize enough money as an equivalent to the *chonsei* increase should pay additional monthly rent. Thus, the MRD renters are hardly a homogenous group in terms of their deposit amount. The majority of MRD renters are low-income households who have no choice but to reside with MRD due to their lack of deposit money or ability to mobilize a *chonsei* deposit. On the other hand, the recent growth of MRD renters shows they are able to put down a heavy deposit with small monthly rent due to the structural changes of rental markets and surrounding economic situations.

“

**The majority of MRD renters are low-income households who have no choice but to reside with MRD due to their lack of deposit money or ability to mobilize a *chonsei* deposit.**

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## 2. Factors driving the recent private rental market changes

During the time of escalating housing prices and high interest rates, both the renters and landlords have favored a *chonsei* contract over an MRD lease. The tenants prefer *chonsei* because they don't need to pay rent every month, and they tend to consider a *chonsei* deposit money as a mandatory saving or the seed money to buy a house in the near future. Besides, owners also favor *chonsei* because it is free from cumbersome rent collection and default risk associated with low-income tenants. In addition, they could leverage a *chonsei* deposit to buy another house as an investment. This works well under the conditions that house prices keep going upward under the circumstances of high interest rates and shortage of public rental housing units. However, those factors fueling the *chonsei* system have faded out with the mass provision of housing units, pessimistic expectations over housing prices and economic recovery, and low interest rates.

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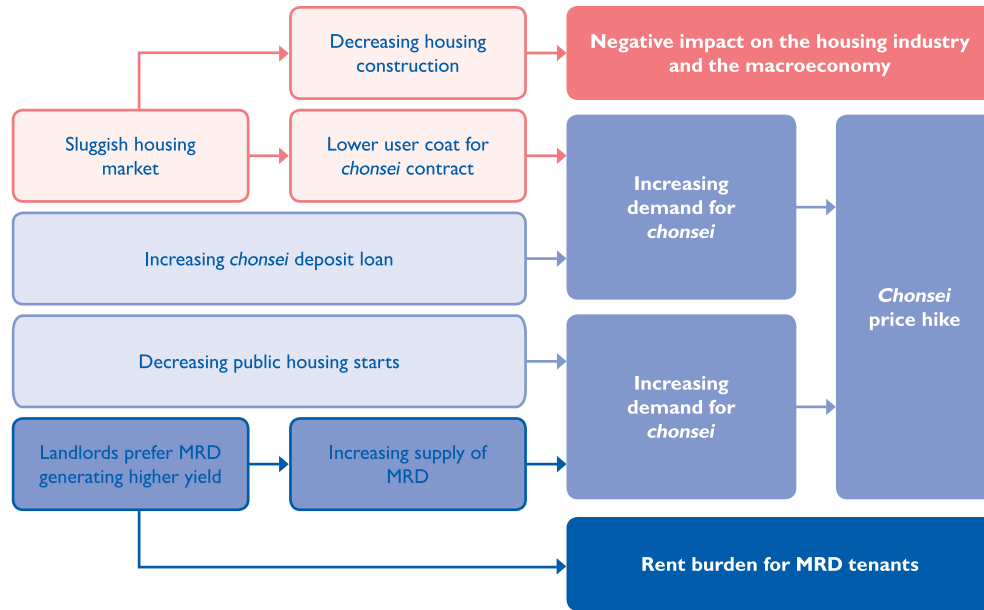
**The sluggish recovery of the sales market and pessimism over the housing price appreciation have affected negatively on the housing industry and the macro economy as well.**

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Rental markets have recently undergone structural changes with intensifying linkages among tenure types. The sluggish recovery of the sales market and pessimism over the housing price appreciation have affected negatively on the housing industry and the macro economy as well. Compared to owning, renting via *chonsei* is cheaper in terms of user costs, which leads to an increasing demand for a *chonsei* contract. In terms of the *chonsei* market, it is easy to lend *chonsei* deposit money because the government has provided a number of deposit loan programs since the *chonsei* price started to increase several years ago, resulting in the boosting of the *chonsei* demand. However, the government entity in the public sector has lessened its capacity to build public housing due to its heavy indebtedness. At the same time, lower interest rates are contributing to the preference shift towards the rental tenure choice. Landlords prefer lending the MRD that could generate a higher yield than *chonsei*. Thus, MRD is becoming abundant in the market while on the contrary, *chonsei* is becoming scarce. Low interest rates and high yield MRD contribute to the decreasing supply of *chonsei*, subsequently leading to the *chonsei* price hike. Those who have little resources to mobilize enough money to live in *chonsei* have to reside in MRD that requires high monthly rent, so lower-income households face a larger housing cost burden than any other income groups.

As a consequence, the housing rental market landscape has changed dramatically. The prevalent type of rental contract has shifted from *chonsei* to an MRD lease. There are growing concerns over the housing cost burden for low-income renters especially for those living with MRD. However, low-income renters in the private rental housing market have hardly been the first priority of policy consideration. The Korean government has implemented various housing policies; however, most of them have focused on boosting owner-occupation and providing lower interest loans for households living with a *chonsei* lease. It is hard to find policy tools to relieve the rent burden for those in an MRD contract except for the housing benefits for the lowest income families.

**Figure 19. Linkage among Tenure Types and Factors Associated with Rental Market Change**



### 3. Possible lessons from Korea: nature of evolving housing issues

During the period of absolute shortage in housing supply, the government's focus was on house supplying policies. The government strived to resolve the complete lack of houses with those policies. As a result, the supply of houses rapidly increased, and housing conditions improved. However, such policies were heavily centered on home ownership and had relatively less consideration for rental households.

A distinct form of rent in Korea, *chonsei* actively increased during the house price rising period but is losing popularity due to the change of market conditions. Therefore, the government is trying in many ways to provide policy support for low-income rental households. Of course, continual efforts are being made to increase the supply of public rental housing, but this requires middle to long term advanced preparation as it needs vast housing sites and a long period of time.

Housing problems are complex, as aspects are different by country, by region within a country, and by housing type within regions. Therefore, context always matters. There could be a risk in literally accepting our experiences. It is crucial that the economic, social, cultural, and institutional conditions of each country be considered.

In the case that the absolute quantitative shortage of houses or housing conditions is the issue, increasing the supply will be the priority. Expanding the supply of self-owned houses is advisable in order to seek social stability through increased home ownership.

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**In some cases, Korea's *chonsei* system might be applicable in specific conditions. Monthly rent lease contracts can be supplemented using the *chonsei* or MRD system for households which have saved a certain amount of the deposit in order to reduce the burden of monthly rent.**

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Low-income households which lack the ability to purchase housing exist in every country, and it is the role of the government to provide decent housing for this group. Therefore, systems for the construction and provision of affordable housing should be created and implemented with the strong support of the government. Also, these systems should be monitored using both quantitative and qualitative indicators to see how much the housing problems of low-income households have been resolved.

In some cases, Korea's *chonsei* system might be applicable in specific conditions. In other words, monthly rent lease contracts can be supplemented using the *chonsei* or MRD system for households which have saved a certain amount of the deposit in order to reduce the burden of monthly rent. The above systems are in the intermediate stage between monthly rent without deposit and house ownership and can help bring up the tenure type gradually.

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# CHANGING LANDSCAPE OF PRIVATE RENTAL MARKET IN KOREA

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